

**General Fund
and Transportation Fund
Budget Projections
FY 00**



**Connecticut General Assembly
Office of Fiscal Analysis
June 12, 2000**

Report Highlights

- **FY 00 General Fund surplus has grown to \$500 million**, up \$235.3 million from our April estimate. (This estimate does not reflect the appropriations of surplus made during the regular session) This will result in a total of **\$300 million being available for school construction payments, in lieu of issuing debt**. See [pages 3 – 8](#) for details.
- **FY 00 Transportation Fund operating surplus is estimated to be \$91.5 million**, down \$2.2 million from our April estimate. A **fund balance of \$74.7 million, as of June 30, 2000**, is projected after reflecting appropriations of surplus during the regular session and inclusion of the \$20 million fund balance. See [pages 9 – 12](#) for details.

General Fund and Transportation Fund Budget Projections for FY 00

(as of June 12, 2000)

I. General Fund

Our projections for the fiscal year ending June 30, 2000 indicate the **potential surplus has grown** by \$435.6 million from the \$64.4 million originally budgeted **to \$500 million** (which represents 4.7% of the original budget). This is an increase of \$235.3 million from our formal April estimate of \$264.7 million. (It should be noted that based on subsequent re-estimates and additional carryforwards, OFA provided an informal surplus projection of \$249.7 million at the time the budget was passed). The \$435.6 million increase is based on revised **estimated revenues that are \$565 million above the budget act estimates** and **estimated expenditures that are \$129.4 million higher than original net appropriations**.

The increase in the surplus is earmarked for two purposes: a \$10 million increase for School Wiring (from \$10 million to \$20 million) and the balance for payment of school construction grants. When the final budget-related legislation was passed, \$41.4 million from surplus and \$410 million in bonding were provided for school construction grant payments. The increase in surplus will provide an additional \$258.7 million for a total of \$300.1 million from surplus for school construction. Correspondingly, the bond issuance would decrease from \$410 million to \$151.3 million for school construction grants.

Revenues

A net increase in General Fund revenue of \$565 million (up \$267.4 million from our April statement) results primarily from an increase in (1) the personal income tax, (2) sales tax, (3) inheritance and estate tax, (4) oil companies tax, (5) real estate conveyance tax, (6) Indian gaming payments, and (7) federal grants.

(1) The **income tax** estimate is \$314.4 million (up \$94 million from our April statement) above budget plan projections: \$269.4 million as a result of higher collections and \$45 million from lower-than-anticipated refunds. The primary reason the estimates have changed is due to receipts from final income tax payments. As a result of delays in certified mail being delivered from the U.S. Postal Service, the Department of Revenue Services processed an unprecedented amount of returns after the legislature had adjourned in May. Collections for the month were approximately \$240 million, which far exceeded estimates. Prior to the surge experienced in May (typically collections are known by the end of April), final payments were not meeting expectations.

Increases from the budget plan estimate are due to the following factors:

- a) Withholding taxes through May exceeded estimates: collections grew at 9.6% while the budget plan projected 7.3% growth. Therefore collections have been revised upward by \$67.7 million over the budget plan estimate.

- b) Estimated payments through May exceeded projections: collections grew by 4.1% while the budget plan projected no growth. Therefore collections have been revised upward by \$37.3 million over the budget plan estimate. Fourth quarter estimates, due by January 15th, were the primary reason why actual collections exceeded projections. Actual payments in December and January exceeded estimates by \$32 million. A drop in the stock market in August and September followed by strong growth in the fourth quarter, especially in the Nasdaq, fueled capital gain income during this period.
- c) Final payments have been increased by \$164.4 million over budget plan estimates based on year-to-date collections through May: collections grew at 28% while the budget plan projected no growth. An increase in final payments reflects that aggregate taxpayer liability grew from income earned from non-wage sources (capital gains, dividends, interest, stock options).
- d) Refunds have been reduced by \$45 million to reflect that total tax liability for 1999 is greater (as evidenced by greater final payments) than anticipated compared to the budget plan estimates. Also, since FY 99 refunds were less than originally estimated at the time when the 1999-2001 biennial budget was enacted, a corresponding adjustment was made to FY 00 refunds.

(2) The **sales tax** estimate is \$59.4 million (up \$35 million from our April statement) above budget plan estimates. The revised estimates reflect year-to-date collections, which are running ahead of estimates by \$41.2 million. It is projected that this higher level of sales activity will continue through the last quarter of the fiscal year.

(3) The increase in the **inheritance and estate tax** of \$26.3 million (no change from our April statement) is due to year-to-date collections. Year-to-date collections continue to support the assumption that the growth in the value of estates caused by increasing stock portfolios and other assets such as housing prices is negating the anticipated revenue loss from the elimination of the tax on lower valued estates.

(4) The **oil companies' tax** has been increased by \$34 million (no change from our April statement) to reflect year-to-date collections. Collections have been stronger this year because oil prices have more than doubled compared to a year ago.

(5) The increase in the **real estate tax** of \$13.8 million (up \$4 million from our April statement) is due to the growth in housing activity and rise in prices. Compared to 1997 figures, housing permits have increased by 1,400 in each of the last two years and real estate prices grew by 5.5% in 1999.

(6) **Indian gaming payments** have been increased by \$15.3 million (up \$2 million from our April statement) based on year-to-date payments that are up by \$12.2 million (\$7.7 million for Foxwoods and \$4.5 million for Mohegan Sun).

(7) **Federal Grants** have grown by \$83.6 million (up \$50.6 million from our April statement) as a result of increased state expenditures for programs reimbursed through a federal match. Two programs, Medicaid services and foster care payments, account for \$43 million of the total. Of the remaining amount, TANF and child care account for \$10 million and administration accounts for \$25 million.

All of the other changes to various tax and other revenue sources have been adjusted to reflect year-to-date collections through May.

Expenditures

Lapse/Deficiency

Expenditure requirements are estimated to be \$129.4 million higher than budgeted due primarily to deficiency appropriations of \$66.7 million and the \$50 million loss of savings associated with the State Information Technology (IT) Privatization. Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of \$4.7 million and Refunds of Escheated Property at \$9.3 million. At this point, it appears that \$85.6 million of the \$86 million in unallocated lapses anticipated by the budget and \$13 million of the \$24.6 million in General Personal Services (PS) and Other Expenses (OE) Reductions anticipated by the budget, will be realized. Our projections anticipate that \$13.3 million of the \$21.2 in hiring freeze/allotment reductions proposed by the governor subsequent to the original budget, will be realized. A summary of General Fund lapsing appropriations can be found on [page 8](#).

The agencies, which received deficiency appropriations, are listed below.

FY 00 Deficiency Appropriations	
<u>Agency</u>	<u>Amount</u>
Dept. of Environmental Protection	\$500,000
Dept. of Mental Retardation	6,200,000
Dept. of Mental Health and Addiction Services	5,700,000
Dept. of Social Services	35,000,000
Dept. of Correction	7,000,000
Dept. of Children and Families	7,300,000
Judicial Dept.	3,000,000
Workers' Compensation Claims – DAS	2,000,000
Total FY 00 Deficiency Appropriations	\$66,700,000

State Information Technology (IT) Privatization

The 1997-1999 biennial budget (passed in June 1997) included \$50 million in annual savings beginning in FY 99 from "Agency Statewide Functional Consolidation," which are savings claimed as the result of privatizing or outsourcing the state's information technology (IT) business to a private company. The contractor was originally expected to assume operations by January 1998. The budgeted savings for FY 99 was not changed by the legislature during the 1998 session and remained at \$50 million, because the administration indicated that the contract would take effect by January 1999, and that \$50 million in savings could be achieved in one-half year. On December 30, 1998, the administration announced that it had selected Electronic Data Systems (EDS) as the private computer firm, and continued negotiating the contract throughout the 1999 session. On June 28, 1999, 10 days after the 1999-2001 biennial budget became law, the state's chief information officer announced that a contract could not be reached and that the privatization effort would be abandoned. Instead, the state will explore outsourcing individual IT applications on an agency-by-agency basis. Therefore, it is anticipated that none of the \$50 million in IT savings budgeted in each of FY 00 and FY 01 will be realized.

**FY 00 General Fund Summary
as of June 12, 2000
(in millions)**

	<u>Budget Plan</u>	<u>Increases (Decreases)</u>	<u>Revised Estimates</u>
Revenues			
Taxes	\$ 7,825.8	\$ 448.1	\$ 8,273.9
Other Revenue	932.7	33.3	966.0
Other Sources	<u>1,887.5</u>	<u>83.6</u>	<u>1,971.1</u>
Total Revenue	\$ 10,646.0	\$ 565.0	\$ 11,211.0
Appropriations			
Original Appropriations - Gross	\$ 10,742.2	\$ --	\$ 10,742.2
Less:			
Estimated Budgeted Lapses	(86.0)	0.4	(85.6)
General PS and OE Reductions	(24.6)	11.6	(13.0)
Allotment Reductions	--	(13.3)	(13.3)
Statewide Agency Functional Consolidation (IT Priv.)	<u>(50.0)</u>	<u>50.0</u>	<u>--</u>
Subtotal - Lapses / Reductions	(160.6)	48.7	(111.9)
Plus:			
Deficiency Appropriations	--	66.7	66.7
Estimated Adjudicated Claims	--	4.7	4.7
Estimated Refunds of Escheated Property	<u>--</u>	<u>9.3</u>	<u>9.3</u>
Total Estimated Expenditures [1]	\$ 10,581.6	\$ 129.4	\$ 10,711.0
Projected Surplus from Operations for FY 00	\$ 64.4	\$ 435.6	\$ 500.0
FY 00 Surplus Appropriations (SA 00-13, Secs. 35 and 36 and PA 00-192, Sec. 49)			
School Construction Grants (SDE)			\$ (41.4)
One-Time Surplus Revenue Sharing (OPM)			(34.0)
Deficit Reduction (UConn Health Center)			(20.0)
CT Education Technology Initiatives (DoIT)			(12.0)
School Wiring (DoIT)			(10.0)
Charter Oak Open Space Trust Account (DEP)			(10.0)
Arts Grants (OPM)			(9.0)
Core Financial Systems (State Comptroller)			(7.5)
New Facility Move (DoIT)			(6.0)
ECS Hartford Supplemental School Aid (SDE)			(5.7)
Operation Sail 2000 (OPM)			(5.5)
Magnet Schools (SDE)			(5.0)
All Other Items			<u>(30.3)</u>
Total Appropriations of Surplus			\$ (196.4)
Remaining Surplus			\$ 303.6
Transfer to Fully Fund the Budget Reserve Fund [2]			(34.9)
Disposition of Unappropriated Surplus (SA 00-13, Sec. 72) [3]:			
School Wiring (DoIT)			(10.0)
School Construction Grants (SDE)			(258.7)
Remaining Balance			\$ (0.0)

[1] Excludes expenditures from prior year carryforwards and appropriations from projected surplus.

[2] This \$34.9 million addition increases the amount in the Budget Reserve Fund (BRF) from \$529.1 million to \$564 million. This keeps the BRF at the statutory limit of 5% of the revised net General Fund appropriations for FY 01.

[3] The constitutional amendment adopted November 25, 1992 requires that the remaining balance (unappropriated surplus) be used for debt retirement, unless otherwise appropriated by the General Assembly, and approved by at least a three-fifths majority in each house. In passing SA 00-13 (the Appropriations/Deficiency Act), the General Assembly unanimously approved disposing of any unappropriated surplus by providing \$10 million for school wiring and the balance for school construction grants.

FY 00 General Fund Revenue
as of June 12, 2000
(in thousands)

	Budget Plan		OFA		OFA Estimate	
	Growth	FY 00	Over/(Under)	Growth	FY 00	
	Rate % [1]	Estimate	Budget Plan	Rate % [1]	Estimate	
Taxes						
Personal Income	5.2	\$ 3,974,600	\$ 269,400	12.3	\$ 4,244,000	
Sales and Use	5.8	3,028,600	59,400	7.4	3,088,000	
Corporations	4.7	573,300	6,700	8.3	580,000	
Inheritance and Estate	4.0	197,700	26,300	18.0	224,000	
Hospital Gross Receipts	(2.2)	79,600	(10,500)	0.1	69,100	
Public Service Corporations	2.1	170,300	0	1.6	170,300	
Insurance Companies	4.1	199,200	1,800	3.2	201,000	
Cigarettes	(2.5)	121,900	(2,900)	(3.6)	119,000	
Oil Companies	2.1	18,000	34,000	74.6	52,000	
Real Estate Conveyance	(2.6)	100,200	13,800	6.8	114,000	
Alcoholic Beverages	0.0	40,000	0	(0.7)	40,000	
Miscellaneous	3.5	39,300	700	(1.5)	40,000	
Admissions and Dues	2.0	24,600	2,400	9.0	27,000	
Total Taxes		\$ 8,567,300	\$ 401,100		\$ 8,968,400	
Refunds of Taxes		(741,500)	47,000		(694,500)	
Net General Fund Taxes		\$ 7,825,800	\$ 448,100		\$ 8,273,900	
Other Revenue						
Transfer Special Revenue		\$ 250,000	\$ 8,000		\$ 258,000	
Indian Gaming Payments		306,700	15,300		322,000	
Licenses, Permits and Fees		124,000	2,000		126,000	
Sales of Commodities and Services		32,000	1,000		33,000	
Rentals, Fines and Escheats		35,000	10,000		45,000	
Investment Income		70,000	(10,000)		60,000	
Miscellaneous		115,000	7,000		122,000	
Total Other Revenue		\$ 932,700	\$ 33,300		\$ 966,000	
Other Sources						
Federal Grants		\$ 1,989,500	\$ 83,600		\$ 2,073,100	
Transfer from Tob. Settlement Fund		78,000	0		78,000	
Transfer to Other Funds		(180,000)	0		(180,000)	
Total Revenue - Other Sources		\$ 1,887,500	\$ 83,600		\$ 1,971,100	
TOTAL REVENUE		\$ 10,646,000	\$ 565,000		\$ 11,211,000	

[1] Tax growth rates reflect adjustments for rate and base changes.

Summary of General Fund Lapsing Appropriations for FY 00

<u>Agency</u>	<u>Amount</u> <u>(in millions)</u>	
Status of Budgeted Lapses:		
Office of Policy and Management	\$ 5.3	
Department of Administrative Services	1.0	
Department of Information Technology	1.7	
Department of Public Safety	1.8	
Department of Labor	4.0	
Department of Economic Development	1.3	
Department of Public Health	1.5	
Office of Health Care Access	2.1	
Department of Mental Retardation	3.9	
Department of Social Services	2.9	
Department of Education	6.3	
Department of Correction	1.6	
Department of Children and Families	4.5	
Judicial Department	2.1	
Debt Service	13.2	
Unemployment Compensation	1.0	
Higher Education Alternative Retirement System	2.0	
Employers Social Security Tax	<u>2.0</u>	
Total - Significant Identified Lapsing Appropriations	\$ 58.2	
Other Identified Lapses (less than \$1 million each)	8.5	
Unidentified Lapses	<u>18.9</u>	
Subtotal		\$ 85.6
General Personal Services and Other Expenses Reductions:		
Personal Services Holdbacks	\$ 11.0	
Other Expenses Holdbacks	<u>2.0</u>	
Subtotal		13.0
Allotment Reductions		13.3
Agency Statewide Functional Consolidation*		<u>--</u>
Total Projected Lapse		\$ 111.9

* See [page 5](#) for an explanation.

II. Transportation Fund

Our projections for the fiscal year ending June 30, 2000, indicate **the potential surplus from operations has grown by \$38.6 million from the \$52.9 million originally budgeted to \$91.5 million** (which represents 11.1% of the original budget). Due to FY 00 surplus appropriations totaling \$36.8 million, **the projected fund balance as of June 30, 2000 is \$74.7 million** (which includes the balance of \$20 million that was previously required by Sec. 13b-68(b), which has subsequently been repealed by Section 13 of PA 00-170 effective 7/1/00.) Please refer to the FY 00 Transportation Fund Summary on [page 11](#).

Sec. 13b-68(b), CGS, previously required that amounts in excess of \$20 million be used by the State Treasurer to reduce the future cost of Special Tax Obligation (STO) debt service. With the repeal of this section, no surplus funds will be designated for debt service retirement unless specifically mandated.

Revenues

Transportation Fund revenue is estimated at \$897.4 million, which is an increase of \$23.6 million over budget act estimates. (This represents a decrease of \$4.4 million from our April statement). The most significant item affecting the revenue increase was the \$16.8 million resulting from a cash defeasance of \$81.8 million of Special Tax Obligation bonds done in December 1999. The cash defeasance was structured to reduce expenditure requirements in years of peak debt service. A direct effect of such a debt service reduction is a reduction in the amount that the Transportation Fund is required by bond covenant to maintain in a debt service reserve fund. This amount is equal to the maximum projected debt service requirements needed in any future fiscal year. Thus, the reduction in projected debt service requirements resulted in the release of \$16.8 million from the debt service reserve fund and the transfer of this amount to the Transportation Fund as revenue. (Please refer to the Revenue Schedule on [page 12](#)).

Expenditures

FY 00 estimated expenditures for the Transportation Fund are projected to be \$805.9 million or \$15 million lower than the budget act estimate of \$820.9 million. (This represents a decrease of \$2.2 million from our April statement). Lapses are estimated to be \$14.7 million higher than the \$20 million originally budgeted, primarily due to an \$18.9 million lapse from the \$26.7 million carry forward from the FY 99 Reserve for Salary Adjustment account. In addition, the DOT is expected to lapse \$6.3 million. This lapse figure has been reduced by \$9.7 million due to approval on June 12, 2000 by the Finance Advisory Committee (FAC) of a transfer from the Snow and Ice Removal program to the Highway and Bridge Renewal Equipment account for the purchase of replacement equipment such as dump trucks, trucks with 55-foot aerial and tractor mowers. The Debt Service account is expected to lapse \$8.3 million, (\$5.6 million from lower expenditures and \$2.7 million resulting from the above-mentioned defeasance). SA 00-13, the Appropriations Act, also provides a \$1.5 million appropriation to the Workers' Compensation Claims account administered by the Department of Administrative Services (DAS). This is approximately 77.9% above the original appropriation. The account was transferred from the DOT's operating budget to DAS in July 1999 to fund both the DOT's and the DMV's workers' compensation costs. The account is

experiencing a shortfall due to the settlement of five cases and large medical payments, which were negotiated and settled.

The proposed budget allotment reduction totaling \$1.8 million for both the Department of Motor Vehicles (DMV) and the Department of Transportation (DOT) is expected to be achieved by June 30, 2000.

The Metro North Personal Injury Claim for which \$2 million was carried forward to

FY 00 from the FY 99 Rail Operations appropriation was settled for \$7 million in late Fall, 1999. As per contract agreement with the Metropolitan Transit Authority (MTA), the DOT's share of the claim is 65% or \$4.6 million. However, since the MTA had made payments in kind to the plaintiff totaling \$295,810 during the years the case was in negotiations, the DOT's remaining financial responsibility is \$4.4 million. Since \$2 million was carried forward into FY 00, the remaining payment of \$2.4 million will be paid from funds that otherwise could have lapsed from this year's Rail Operations appropriation.

In addition, the pending claim from the Saturn Construction Co. concerning cost overruns for the DOT headquarters building in Newington was settled for \$3.9 million. This amount had been appropriated and carried forward into FY 00 from the FY 99 Transportation Fund surplus.

It is anticipated that the Reflectorized License Plate program will become fully operational by July, 2000. Only \$250,000 of the \$12.9 million appropriation from the FY 99 Transportation Fund surplus (for use during fiscal years 2000 and 2001) is expected to be expended by the end of the current fiscal year. Since the replacement of the 2.5 million existing plates will be completed over a two-year period, it appears that any balance of the funds might have to be carried forward into FY 02.

FY 00 Transportation Fund Summary
as of June 12, 2000
(In Millions)

	<u>Budget Plan</u>	<u>Increases (Decreases)</u>	<u>Revised Estimates</u>
Revenues			
Taxes	\$ 540.5	\$ 6.1	\$ 546.6
Other Revenue	333.3	0.7	334.0
Release from Debt Service [1]	--	16.8	16.8
Total Estimated Revenues	\$ 873.8	\$ 23.6	\$ 897.4
Appropriations			
Original Appropriations - Gross	\$ 840.9	\$ --	\$ 840.9
Plus: Deficiency Appropriation -			
Workers' Compensation Claims	--	1.5	1.5
Less: Estimated Budgeted Lapses	(20.0)	(14.7)	(34.7)
Allotment Reductions	--	(1.8)	(1.8)
Subtotal Estimated Lapses/Reductions	(20.0)	(16.5)	(36.5) [2]
Total Estimated Expenditures	\$ 820.9	\$ (15.0)	\$ 805.9
Estimated Surplus from Operations for FY 00 [3]	\$ 52.9	\$ 38.6	\$ 91.5
FY 00 Surplus Appropriations (SA 00-13, Secs. 37 and 38)			
Tweed New Haven Airport Authority			\$ (1.8)
Rail Transit Equipment			(35.0)
Projected FY 00 TF Surplus			\$ 54.7
Plus: Available Fund Balance			
(Required per Section 13b-68) [3]			20.0
Projected Fund Balance as of June 30, 2000			\$ 74.7

[1] As the result of the \$81.8 million cash defeasance on 12/22/99, \$16.8 million was released from the Debt Service Reserve Fund.

[2] The breakdown of the Total Estimated Lapses/Reductions are as follows: Agency Allotment Reductions: DMV, \$0.4 million, DOT, \$1.4 million; Lapses: DMV, \$0.7 million, DOT \$6.3 million, Debt Service, \$8.3 million, Reserve for Salary Adjustment, \$18.9 million; Other Lapses, \$0.5 million.

[3] Sec. 13b-68(b), CGS, previously required that amounts in excess of \$20 million be used by the State Treasurer to reduce the future cost of Special Tax Obligation (STO) debt service. On 12/22/99, the Office of the State Treasurer completed a cash defeasance of \$81.8 million which used the combined surplus from FY 98 and FY 99 and left a balance of \$1.5 million. Section 13 of PA 00-170 repeals the aforementioned provisions effective 7/1/00. Thus, no surplus funds will be designated for debt service retirement unless specifically mandated.

**FY 00 Transportation Fund Revenues
as June 12, 2000
(in thousands)**

	FY 00 Budget Plan	OFA Over/(Under) Budget Plan	FY 00 OFA Estimate
TAXES			
Motor Fuels Tax	\$ 500,000	\$ 6,100	\$ 506,100
Petroleum Products Tax	36,000	0	36,000
Sales Tax - DMV	10,000	0	10,000
Refunds of Taxes	(5,500)	0	(5,500)
Total - Taxes Less Refunds	\$ 540,500	\$ 6,100	\$ 546,600
OTHER SOURCES			
Motor Vehicle Receipts	\$ 185,800	\$ 2,200	\$ 188,000
Licences, Permits, and Fees	111,000	(2,000)	109,000
Interest Income	36,000	0	36,000
Federal Grants (FTA)	2,500	500	3,000
Release from Debt Service Account	0	16,800	16,800
Transfer to Conservation Fund	(2,000)	0	(2,000)
Total -Other Sources	\$ 333,300	\$ 17,500	\$ 350,800
Total Revenue	\$ 873,800	\$ 23,600	\$ 897,400